

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
FINANCE COMMITTEE

OPEN SESSION

Friday, January 20, 2012

3:27 p.m.

Westgate Hotel
Versailles Ballroom
1055 Second Avenue
San Diego, California 92101

COMMITTEE MEMBERS PRESENT:

Robert J. Grey Jr., Chairperson
Sharon L. Browne
Martha Minow
Father Pius Pietrzyk, O.P.
Robert E. Henley Jr. (Non-Director member)
(by telephone)
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

Charles N.W. Keckler
Harry J.F. Korrell, III
Victor B. Maddox
Laurie Mikva
Julie A. Reiskin
Gloria Valencia-Weber

STAFF AND PUBLIC PRESENT:

James J. Sandman, President
Richard L. Sloane, Special Assistant to the President
Kathleen McNamara, Executive Assistant to the President
Victor M. Fortuno, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary
Mattie Cohan, Senior Assistant General Counsel,
Office of Legal Affairs
Katherine Ward, Executive Assistant, Office of Legal
Affairs
David L. Richardson, Comptroller and Treasurer, Office
of Financial and Administrative Services
Jeffrey E. Schanz, Inspector General
Laurie Tarantowicz, Assistant Inspector General and
Legal Counsel, Office of the Inspector General
Joel Gallay, Special Counsel to the Inspector General,
Office of the Inspector General
Ronald "Dutch" Merryman, Assistant Inspector General
for Audit, Office of the Inspector General
Thomas Coogan, Assistant Inspector General for
Investigations, Office of the Inspector General
David Maddox, Assistant Inspector General for
Management and Evaluation, Office of the
Inspector General
John Constance, Director, Office of Government
Relations and Public Affairs
Stephen Barr, Communications Director, Office of
Government Relations and Public Affairs
Treefa Aziz, Government Affairs Representative, Office
of Government Relations and Public Affairs (by
telephone)

Chuck Greenfield, National Legal Aid and Defender
Association (NLADA)
Don Saunders, National Legal Aid and Defenders
Association (NLADA)
Justice Earl Johnson, Jr., American Bar Association
(ABA) Standing Committee on Legal Aid and Indigent
Defendants (SCLAID)

C O N T E N T S

OPEN SESSION	PAGE
1. Approval of agenda	5
2. Approval of minutes of the Committee's meeting of October 18, 2011	6
3. Consider and act on Revised Consolidated Operating Budget for Fiscal Year (FY) 2011, Resolution 2012-001	6
Presentation by David Richardson, Treasurer and Comptroller	
4. Consider and act on Consolidated Operating Budget for FY 2012, Resolution 2012-002	23
Presentation by David Richardson, Treasurer and Comptroller	
5. Presentation on LSC's Financial Reports for the first two months of FY 2012	33
Presentation by David Richardson, Treasurer and Comptroller	
6. Staff report on submission of LSC's FY 2013 budget request	38
Presentation by John Constance, Director, Office of Government Relations and Public Affairs	

OPEN SESSION	PAGE
7. Discussion of Committee members' self-evaluations for 2011 and the Committee's goals for 2012	Deferred
8. Consider and act on a Resolution regarding selection of accounts and depositories for LSC funds	42
9. Public comment	53
10. Consider and act on other business	54
11. Consider and act on adjournment of meeting	54

Motions: 5, 6, 22, 33, 54

1 PROCEEDINGS

2 (3:27 p.m.)

3 CHAIRMAN GREY: This is Robert Grey, Chair of
4 the Finance Committee. I'd like to call to order the
5 Finance Committee. And I note that I have most of
6 my -- Bob Henley was going to call in. I don't know
7 whether we need to send him a note.

8 Is there anybody on the phone?

9 (No response.)

10 CHAIRMAN GREY: All right. Well, we'll see.

11 (Pause)

12 CHAIRMAN GREY: Ladies and gentlemen, we're
13 going to go to page 69 in your book. This is the
14 agenda of the Finance Committee. I'd like to move
15 approval of the agenda.

16 MOTION

17 MS. BROWNE: This is Sharon Browne. I'll move
18 to approve the agenda.

19 DEAN MINOW: It's Martha Minow. I second.

20 CHAIRMAN GREY: Thank you. Without objection,
21 it's adopted.

22 The minutes are behind the first tab. After a

1 review of it on page 71, are there any additions to the
2 minutes?

3 (No response.)

4 CHAIRMAN GREY: Can I get a motion for
5 approval of the minutes?

6 M O T I O N

7 MS. BROWNE: This is Sharon Browne. I'll
8 approve the minutes of October 17, 2011.

9 DEAN MINOW: I second. It's Martha Minow. I
10 second the motion to approve the minutes.

11 CHAIRMAN GREY: Thank you. Without objection,
12 they're adopted.

13 Bob Henley, are you on the phone? Hello? Is
14 anybody on the phone?

15 (No response.)

16 CHAIRMAN GREY: Item No. 3 is to consider and
17 act on the Revised Consolidated Operating Budget for
18 Fiscal Year 2011. The resolution is on page 83. I'm
19 going to ask that the treasurer and comptroller, David
20 Richardson, make the presentation. Dave?

21 MR. RICHARDSON: Thank you, sir. And for the
22 record, it is David Richardson, the treasurer and

1 comptroller of the Corporation. I will be referring to
2 page 75 to begin with, and we'll go from there.

3 With the revised operating budget that we've
4 got before you, I'll review the expenses and then go
5 through a couple of changes that we're going to ask the
6 committee to recommend to the Board.

7 In the basic field program, we had budget this
8 past year, the year ending September 2011, of \$379
9 million. Total awards for the year were \$377,900,000.

10 We have a carryover of \$1.6 million. And that's
11 attributed to the Louisiana, Wyoming, and American
12 Samoa service areas.

13 The U.S. Court of Veterans' Appeals, we had a
14 grant of \$2.3 million. The amount of the grants and
15 operating expense was 2.3, and we have just a small
16 carryover, \$3,800, that will go into next year's
17 budget.

18 With the grants from other funds, we had a
19 budget of \$644,000. We had grants of \$111,000. One
20 went to Legal Services Alabama to help them defray some
21 of the cost due to disaster relief when they had a
22 surge in clients because of the natural disaster there,

1 the hurricane. And then we have some startup costs for
2 Southeast Louisiana; they are taking over a part of the
3 service area of CALS, Capital Area Legal Services.

4 Within the technology budget, the budget was
5 \$6.7 million.

6 CHAIRMAN GREY: One second. Is anybody on the
7 line?

8 (No response.)

9 MR. RICHARDSON: And we had expenses in the
10 technology budget net \$2.9 million. We provided grants
11 of \$3,300,000. We had grant closeouts last year,
12 monies that we collected back for closing out grants.
13 There was also some checks written back to the
14 Corporation for unexpended funds of \$432,000.

15 So there's a remaining balance of \$3.8
16 million, which will go to help support the technology
17 awards for 2012. And this \$3.8 million was awarded
18 basically in November after the president reviewed
19 those with the technology folks.

20 CHAIRMAN GREY: Sharon?

21 MS. BROWNE: This is Sharon Browne. I just
22 had a quick question on the closeout grants. How are

1 those determined? I'm not sufficiently familiar with
2 what you mean by closeouts. Is it money coming back
3 from grantees, and for what reason?

4 MR. RICHARDSON: It was for grants that was
5 given to grantees to start a project. And once they
6 got into the project, they decided that they could not
7 complete the grant with the funds available, or they
8 decided they didn't have the expertise to do it.

9 So the money came back that was given to them,
10 or we simply reversed the grant. We never gave them
11 the complete money. It's a combination of both,
12 reversing the grants and money coming back.

13 MS. BROWNE: Thank you.

14 MS. REISKIN: Yes, I had a similar question.
15 Are we going to budget the same -- it seems like it's a
16 huge difference between what we budgeted and what we
17 spent. Are we going to budget differently, or are we
18 going to -- I would rather, actually, see us do
19 something differently so it's easier for grantees to do
20 the projects, given how popular in all of the feedback
21 we've gotten, especially after today, about how good
22 this is. Is that not relevant for the budget?

1 CHAIRMAN GREY: It is relevant. It is
2 relevant, and I think the answer to your question is,
3 we anticipate -- LSC anticipates -- trying to get the
4 money out into the field.

5 If you recall, we had the issue of monitoring
6 and figuring out what the cost controls were with the
7 IG's office. So we had to stop for a moment there.
8 And then we got a new president, and we had to give him
9 time to figure out what we were doing with all of this.
10 We've had a little bit of delay there.

11 I think this year we anticipate -- Mr.
12 President, you correct me if I'm wrong -- but this
13 current fiscal year, we hope to, with this next grant
14 application, be in a position to try to get most of
15 that money out.

16 PRESIDENT SANDMAN: Yes. I'd like to ask Mr.
17 Richardson to respond in more detail, to explain the
18 difference between the budget of \$6.7 million and
19 expenditures of 2.9.

20 MR. RICHARDSON: I need to back up a year. In
21 2010, we had to delay the technology grants due to the
22 compliance issues and getting things straightened out.

1 Those awards were made in November/December of last
2 year.

3 We started the competition process last March
4 and April of 2011. They worked toward getting the
5 proposals in, evaluating them, and getting them to the
6 president. But when it came September, there was a
7 number of things going on, and Jim wanted to take some
8 extra time to review them and make sure that we were
9 following all of our procedures and then make the
10 awards.

11 In November, we did award over \$3 million in
12 technology grants. That would have normally been in
13 the 2011 cycle had it not been delayed for the
14 additional review.

15 This year, in March, we will ask for letters
16 of intent. They will come in. They will be evaluated.

17 We will then ask them to submit a proposal.
18 Hopefully, in July and August, those proposals will
19 come in, be evaluated, and it's always our goal to try
20 to make the awards before September 30th. Circumstance
21 sometimes doesn't allow us to do that, but that's our
22 goal that we can do that.

1 As long as we can make them in a timely
2 fashion, we will get them in the records and reduce the
3 expenses. What that does is it shows in the expense.
4 And then when you look at the financial statements,
5 it's part of the payable because we pay them out as
6 they meet their milestones.

7 CHAIRMAN GREY: I understand that the line is
8 open, and I appreciate the fact that those who are on
9 the line have their telephone on mute. But I'd ask you
10 to identify yourself if you're on the open line, if
11 you're on this line.

12 (Telephone sound garbled.)

13 CHAIRMAN GREY: I'm going to try one more
14 time. Is anybody on the open line? Because we're not
15 getting your name, and we're going to need to do that
16 before we can continue.

17 (Pause)

18 CHAIRMAN GREY: What do you recommend, Mr.
19 General Counsel? I don't want to cut anybody off, but
20 I don't want to --

21 MR. FORTUNO: Do we have a quorum of the
22 committee present?

1 CHAIRMAN GREY: Yes.

2 MR. FORTUNO: It seems to me that so long as
3 we have a quorum of the committee present, the
4 committee may go ahead and proceed, not just to hear
5 reports but to consider and act on action items.

6 If someone is on the line but we haven't been
7 able to hear them, if there's some sort of technical
8 difficulty, if they will email to me at vmf@lsc.gov
9 that they in fact are on the line and can hear, I can
10 go ahead and report that to the court reporter.

11 But I think that for purposes of business of
12 the committee, I think you can proceed since you do
13 have a quorum. And you may have other members of the
14 public present and hearing what's going on, which is
15 fine and encouraged.

16 But in terms of members of the committee, I
17 will, if I get that information, pass it on to the
18 court reporter so that it's on the record. But I think
19 that you can safely proceed.

20 CHAIRMAN GREY: Thanks.

21 Mr. Richardson?

22 MR. RICHARDSON: I'm referring to page 76 at

1 this point. Having gone through the delivery of legal
2 assistance areas with the management and grants
3 oversight, we had a budget this year of \$21.4 million,
4 of which we spent \$17.2 million, basically. So we have
5 a carryover of \$4.2 million, 19.6 percent under budget.

6 The vast majority of this money -- and I
7 should back up; it's actually a million dollars more
8 spent in 2011 than there was spent in 2010. We have
9 contracts outstanding of \$132,000, and that's what the
10 encumbrance is, is contracts for work that had not been
11 completed but yet were a part of the operating year
12 ending September 30.

13 The biggest areas of variance that makes up
14 this \$4.2 million is dealing with compensation and
15 benefits, \$2.7 million. We have a number of open
16 positions. Additionally, there was funds budgeted last
17 year for raises that went unspent as a result of the
18 salary freeze. And then a portion of the money for
19 salaries was put in contingency to handle some
20 outstanding issues, and those funds remained at the end
21 of the year. So that makes up the \$2.7 million.

22 In addition to that, we had consulting funds

1 of \$508,000. The vast of that was in the Board's
2 budget. We have money set aside for the Institutional
3 Advancement Committee of \$100,000. That was not used;
4 the Office of Legal Affairs for outside counsel, again,
5 for reduced outside counsel use last year, so there's a
6 large number left.

7 Then we were updating our websites throughout
8 the Corporation. There was a contract; of that,
9 \$132,091 was attributed to the websites and getting
10 them ready to be launched. And they were launched on
11 11/11/11 this year with the new websites.

12 The next significant amount is travel. It was
13 \$492,000. The money is in the Board's budget. We had
14 some money aside for the Executive Office travels, for
15 some task forces to help with situations. We did not
16 use that money this year. It is in the next year's
17 budget also so that we can have people come in and
18 advise the Corporation, Jim, on issues that are coming
19 up that we need to address.

20 We also had program money in OCE that was
21 remaining that was not spent. And then a part of the
22 contingency funds was travel because of an event that

1 we were planning that never took place.

2 In addition to that, we had to --

3 CHAIRMAN GREY: Do you have a question?

4 MS. REISKIN: Yes. This morning we heard from
5 a number of panelists that wouldn't it be great if we
6 could have a way to be able to visit each other's
7 programs. And is there a way that any of this could go
8 to help with that? Like if there's --

9 CHAIRMAN GREY: The short answer is yes. The
10 longer answer is this is not the place to do that
11 allocation because this is a report on how we've
12 separation the money.

13 MS. REISKIN: Right. No, for another year.

14 CHAIRMAN GREY: Yes. I understand. And that
15 then becomes a discussion for budgeting for the
16 following year. But the short answer is yes.

17 MR. RICHARDSON: In addition to that
18 carryover, we needed to make a few adjustments within
19 the budget to match the expenditures that occurred with
20 the budget. We had, within our OIT, a number of
21 equipment purchases that would normally be classified
22 as a capital expenditures. We budgeted like a thousand

1 dollars for computers, and because of competitive
2 bidding and the cost of computers going down, they only
3 cost us \$450.

4 So our capitalization threshold is \$500. So
5 those purchases that were budgeted as capital
6 expenditures are now supplies, so it went to other
7 operating expenses. So we needed to make the
8 adjustment for that.

9 There was also a disaster recovery site
10 expenses that were previously not budgeted that we need
11 to accommodate also.

12 All this money is available within the OIG
13 budget to be able to account for it. It's just moving
14 it within the lines. So the resolution that we'll ask
15 you to pass will be to move the amount of \$52,000 from
16 the other operating funds, and move the money from
17 capital expenditures in the amount of \$45,000 and
18 \$7,000 from communications because the cost of our
19 telephone system is going down as we're using more
20 email to communicate. And everything just sort of
21 added up to these are the adjustments that we need for
22 this period.

1 MS. BROWNE: What is Jim Sandman's authority
2 to move line item funds? Is there a threshold amount
3 of \$10,000 or something to move it and this is above
4 his threshold?

5 MR. RICHARDSON: The threshold is \$75,000.
6 But the way that Jim and I looked at the guidelines and
7 read was that we report to the Board in April and July
8 the changes within the budget. There is no
9 accommodation for making changes at year-end. And that
10 is something that we are going to address this year,
11 whether it be in April or July, to provide that
12 authority.

13 MS. BROWNE: Thank you.

14 MR. RICHARDSON: In addition, because of open
15 positions in the Office of Program Performance, we were
16 using a few more temporary employees to get some
17 projects done. So the amount of unspent salaries,
18 personnel compensation, and benefits, we need to move
19 \$35,000 from that line into temporary employee pay to
20 take care of the spending that occurred there.

21 Within the LRAP, as we talked yesterday, we
22 had a budget of \$3.1 million. The expenses this year

1 were 1.9. That included the allowance that we set up.

2 With this, the variance was reduced overall that we
3 had projected, and now we have carryover within the
4 LRAP line of \$1,180,000. That will go to support next
5 year's budget. And then we have a receivable of
6 \$7,600, basically.

7 Within the OIG line, the Office of the
8 Inspector General had a budget of \$6.3 million.
9 Expenditures were \$4.1 million. So there was \$2.1
10 million in carryover there, 35 percent under budget.

11 At the same time, they had contracts
12 outstanding of \$189,000 for work that is ongoing that
13 will be finished in 2012. And these expenditures are
14 basically \$330,000 greater than they were in 2010.

15 The vast majority -- there's three lines that
16 I've also identified that has the largest amount of
17 carryover, \$304,000 in your personnel compensation and
18 benefits because of open positions; 725 in the
19 consulting line, and this is where the \$189,000 in
20 contracts are let; and then the largest variance is
21 \$900,000, and the IG has a two-year spending plan.

22 FATHER PIUS: Could you explain that a little

1 bit more? I don't remember seeing this multi-year
2 carryover spend-down plan in the budget before.

3 MR. RICHARDSON: We have reported it at each
4 meeting in each month. The IG, with the amount of
5 money that is available, he couldn't spend it
6 economically, efficiently, in a one-year period. And
7 if they did, next year they wouldn't have enough money
8 for their operations. So they had adopted a two-year
9 plan as far as spend-down.

10 Dave Maddox, I see, has joined me, and
11 Inspector General Schanz; may add a little more meat to
12 that.

13 MR. SCHANZ: I'll start with a -- well, I'll
14 start with I'm a fiscal conservative and I don't spend
15 more than I have. So we developed what in parlance
16 would be called an advanced procurement plan, which
17 will cover -- we didn't hire up to the ceiling, to
18 begin with; we have a 30-person ceiling.

19 We didn't hire up to that, in recognition of
20 some of the recession impact on the programs and in
21 recognition of the freeze on federal employees. My
22 employees didn't get any sort of increase this year.

1 So that slowed it down.

2 When I came in -- and this will give you a
3 little bit about my philosophy -- we had to redo a lot
4 of systems that were not up to snuff. And in the
5 computer world, and Dave Maddox can talk to that better
6 than I can, usually you have a three-year replacement
7 on your hardware. I came into a very antiquated
8 office.

9 MR. DAVE MADDUX: If I may, we
10 had -- particularly what you see in the consulting
11 line, for anybody of years we have had a carryover that
12 we've reported. And we have shown that consistently in
13 our other operating income line.

14 We have had delays in consulting, most
15 directly in the year 2011. We've had some problems in
16 procurement year after year. We have hired a
17 procurement specialist to help us with this.
18 Subsequent to that, we were able to do the quality
19 control review contract and to let that -- that started
20 in July.

21 Subsequent to that, we also have investments
22 in information management systems. We've just signed

1 that contract, and that work is scheduled to kick off
2 on February 1st.

3 CHAIRMAN GREY: Thank you.

4 Mr. Richardson?

5 MR. RICHARDSON: If there's no further
6 questions, what I would like for you to do is to turn
7 to page 83. And there is a resolution, and it's
8 approving the Revised Consolidated Operating Budget.
9 And it's basically approving the movement of the
10 \$52,000 within the OIT budget and the \$35,000 within
11 the OPP budget. That's the revisions to last year's
12 budget that we're asking that you propose to the Board
13 tomorrow.

14 CHAIRMAN GREY: The committee's pleasure in
15 recommending the resolution to the Board, or the
16 question.

17 M O T I O N

18 MS. BROWNE: This is Sharon Browne, and I
19 suggest that we approve the resolution to take to the
20 Board.

21 CHAIRMAN GREY: Is there a second?

22 FATHER PIUS: Second.

1 CHAIRMAN GREY: All in favor, say aye.

2 (A chorus of ayes.)

3 CHAIRMAN GREY: Opposed, no.

4 (No response.)

5 CHAIRMAN GREY: Thank you.

6 Mr. Richardson?

7 MR. RICHARDSON: The next agenda item, 4, is
8 consider and act on the consolidated operating budget
9 for 2012. In October, you passed a temporary operating
10 budget of \$415 million.

11 Since that time, we have gotten our
12 appropriation. At the bottom of page 87, I put a table
13 in that shows that the original temporary operating
14 budget was based on funding of \$398 million. The final
15 appropriation was \$348 million. So there's a \$50
16 million reduction.

17 This shows that there was actually a
18 \$50,500,000 reduction in the field. And then when you
19 look at technology, that was an increase; in management
20 and grants oversight, there was an increase. The LRAP
21 program, the Herbert S. Garten LRAP program, went up
22 \$16,900. And then the Office of the Inspector General

1 went up \$71,000.

2 In addition to that change, we had given you a
3 projection of carryover. Now that we've gone through
4 our audit and we've got the year-end expenses, we had
5 originally projected \$15 million in carryover. It
6 ended up being 13.9. And the changes are in column 3
7 on page 88 there, where it talks about the basic field.

8 We give additional money to the Louisiana
9 programs to close out and help move forward with the
10 new grantee there. We also made the change because of
11 the loan forgiveness allowance for the LRAP that does
12 \$1.1 million.

13 Management and grants oversight -- actually,
14 we had budgeted \$4.2 million,, and it ended up being
15 4.3. So we added \$50,000 to our budget there. And
16 then there's a \$31,000 increase to the Inspector
17 General. In addition to those changes, we have also
18 received the Public Welfare Foundation planning grant.

19 So that \$17,000 needs to be added to the budget also.

20 So when you look at the budget that we started
21 at \$415 million, you subtract the \$50 million, subtract
22 the \$1.1 million, and you add the \$17 million, we have

1 a total budget before you of \$364 million for this
2 year. I have provided how we would plan on spending
3 that money. You see that the basic field certainly
4 goes through the competitive process, with one-third of
5 our grants being awarded each year.

6 Most of the time those are three-year grants.
7 Sometimes they are two or one, based on their
8 application. We have renewal grants for the other
9 two-thirds.

10 The U.S. Court of Veterans' Appeals is a
11 multi-year grant. And this is the continuation of that
12 grant for the coming year.

13 The grants from other funds receives one-time
14 grant money. We recovered money last year, so when you
15 look at what we just passed for September and we saw
16 the carryover, we have now added the money that we
17 collected back from the grantees to this particular
18 line to help fund it to support emergency and one-time
19 grants.

20 Then, as we talked about with the technology,
21 those are awarded on an annual basis. And again, we
22 are planning on getting that done in September.

1 And then the Herbert S. Garten loan program,
2 loan repayment assistance program, we have three
3 classes this year. Each year we have three classes of
4 recipients. One drops off and then we have a new one.

5 So this year we will be doing the third year of the
6 2010 recipients, the second year of the 2011
7 recipients, and then the new class of recipients for
8 2012.

9 Within management and grants oversight, you
10 passed a budget of \$20,900,000. With the changes that
11 we've incorporated here, I've given you a breakdown of
12 how we would spend all the money -- the five Board
13 meetings, the travel and the consulting for the Pro
14 Bono Task Force, the Institutional Advancement
15 Committee, and any other future projects that the Board
16 may undertake. There's an amount of money in there to
17 help with that also.

18 Funds are budgeted for guests to come in, 30
19 guests to attend Board meetings. We also have 30
20 additional trips for Board members to take while
21 attending to LSC business.

22 At the last writing of this, we had 102 staff

1 members budgeted. That has been increased by one.
2 With the ongoing work of the Institutional Advancement
3 Committee, it's planned to delay the hiring of a
4 director for that work until the consultant produces a
5 job description so that you can help shape and mold
6 what you want that committee and that person to do. So
7 we've projected that hire to be in August.

8 Additionally, we had money that lapsed that
9 was not used for the vice president of grants
10 management. Those funds we have set aside to hire a
11 second special assistant to the president. In addition
12 to that, of course, we still plan on hiring the vice
13 president for grants management, the director of
14 institutional advancement, and then there's a support
15 person in the Executive Office for that also.

16 Information technology: We have an
17 information administrative specialist that we plan on
18 hiring there. Again, some of these are being
19 held -- for instance, when you look at program
20 performance, we have a deputy director, program counsel
21 III, program analyst. There are some advertisements
22 out for that.

1 There's also the compliance and enforcement
2 director. And while we've not yet talked about, the
3 director certainly has not been advertised. Neither
4 has the deputy director. And once we get the vice
5 president of grants management in, I'm sure those will
6 be taking shape as to what we end up doing there, along
7 with fiscal oversight Task Force recommendations that
8 will come to the Board there. This is just setting
9 money aside for the prospects of doing that.

10 CHAIRMAN GREY: In the interests of time, this
11 is a fairly detailed approach. And David's been very,
12 I think, diligent in trying to go through each piece of
13 this. We've need an opportunity to review it. Without
14 going through each line of this, are there any
15 questions by board members of any specific item
16 before -- David, I'd like to ask you to summarize what
17 you've done, and then let us consider the resolution.

18 MR. RICHARDSON: Let me just -- I have a short
19 summary here, and I'm going to give you that.

20 Within the Board's budget, we increased it
21 \$25,000. That was money that was received from Friends
22 for the American Bar Foundation contract, and we had to

1 match that. So I had to move money from contingency to
2 give the \$25,000 for that contract.

3 In addition to that, because of the salaries
4 and the Executive Office, the delay hiring, we moved
5 \$115,000 down to the contingency line because of that.

6 But in addition to that, as we looked to the prospects
7 of negotiating a union contract, there is \$100,000 in
8 the Executive Office contract for a facilitator, union
9 facilitator, to help us with the contracting. Then
10 we've also added the Public Welfare Foundation grant to
11 the Executive Office, the \$17,000.

12 We are having some turnover. So within the
13 GRPA, with John leaving us, we have budgeted for a
14 one-month salary for a person to come in to sit with
15 John to get up to speed on what's going on in the
16 office and to help with the transition. We've also
17 recently, with the retiring of our director of human
18 resources, we have budgeted a transition period there
19 also.

20 We also have somebody in the HR office who's
21 out on extended medical leave, and so we've got to
22 account and provide some temporary help until that

1 person comes back. So we're adding \$12,000 to that
2 budget.

3 Within OIT, because of the money that was set
4 aside for the upgrade of the websites that was not used
5 last year, that was carried over, we now have to go
6 back and add that money to the OIT consulting line to
7 have the money available to complete that project in
8 this budget.

9 Then we made adjustments within Other
10 Operating and Capital based on the same lines, looking
11 at what we're projecting to spend and how much it's
12 projected to cost. So we've increased the Other
13 Operating \$50,000 but we reduced Capital \$119,000, so
14 we're in good shape there.

15 With the delays in hiring in OPP, we moved
16 \$183,000 of the money that was not used through January
17 to the contingency. But we did put some money in for
18 the tech summit that's planned for this year -- \$40,000
19 for a consultant, \$46,000 additional money for travel.

20 Then we're also looking to add \$50,000 of
21 consulting money within the Office of Compliance and
22 Enforcement. There's been some discussions about

1 having someone come in who has experience with our
2 audit cycle and compliance cycle, and helping to advice
3 the staff, and perhaps coming up with some revised
4 criteria for them to use when they go into the field to
5 do the compliance visits.

6 Basically, the net of all the adjustments is
7 an increase to the contingency of \$326,000. So that
8 makes up the budget of \$21,300,000 for management.

9 I also have the followup, the information that
10 the Inspector General has given me. And there's money
11 budgeted for consulting; travel; carryover funds to
12 upgrade, as David said, their computer systems, the
13 network. There's a document management system. So the
14 budget that they have put forth is \$6.4 million.

15 The resolution that we ask that you present to
16 the Board is on page 93. And I have summarized where
17 all the money comes from, whether it be appropriation,
18 carryover. I've got the U.S. Court of Veterans'
19 Appeals funds in there. And, by the way, they're still
20 under a CR, so this is the best estimate that we have
21 at this point for their funding.

22 I am told there may be an increase to that.

1 And if there is, we will come back to you in April with
2 that.

3 CHAIRMAN GREY: Questions?

4 FATHER PIUS: I have a question.

5 CHAIRMAN GREY: Father?

6 FATHER PIUS: So I've got two tables in front
7 of me, and I'm not sure how to reconcile them. So on
8 page 96, attachment B, the Consolidated Operating
9 Budget, for example, the Board of Directors total is
10 \$630,500. And then I have, again, attachment B, page
11 101, which has Board of Directors annual budget,
12 \$605,500, which is a difference of \$25,000. And I'm
13 not sure why.

14 MR. RICHARDSON: I'm sorry. Which --

15 FATHER PIUS: So page -- what's the difference
16 between the budget on 96 and the budget on 101?

17 MR. RICHARDSON: The budget that is on 101 is
18 the budget under the temporary operating budget. And
19 we've made changes with this particular budget. So
20 this was the October budget that you passed.

21 FATHER PIUS: Oh, then 101 is the October
22 budget?

1 MR. RICHARDSON: That's correct.

2 FATHER PIUS: And 96 is the revised budget
3 giving what we know the actual numbers are?

4 MR. RICHARDSON: That's correct.

5 FATHER PIUS: Thank you.

6 CHAIRMAN GREY: Question?

7 (No response.)

8 CHAIRMAN GREY: Motion?

9 M O T I O N

10 DEAN MINOW: I move the resolution that is on
11 page 93.

12 CHAIRMAN GREY: Second?

13 MS. BROWNE: I'll second.

14 CHAIRMAN GREY: All in favor say aye.

15 (A chorus of ayes.)

16 CHAIRMAN GREY: All opposed?

17 (No response.)

18 CHAIRMAN GREY: Mr. Richardson?

19 MR. RICHARDSON: Maybe this will help you
20 also, Father Pius. We're going to turn to page 105.
21 What I did in the book is I presented a comparison for
22 spending based on the temporary operating budget. And

1 I also provided you a comparison based on the
2 consolidated operating budget that you just passed. So
3 we will skip the temporary operating budget and to go
4 105.

5 The spending, of course, doesn't change. I
6 have changed the presentation slightly because of the
7 loan repayment assistance program. I have moved that
8 up into the delivery of legal assistance in the next
9 reporting cycle. We forgive loans one time a year.

10 The second -- I break this up in boxes. I
11 give you the delivery of legal assistance on an annual
12 budget, and then I have the management and grants
13 oversight and Inspector General on an allocated basis.

14 I just felt it was better reporting to go ahead and
15 move it up into the delivery of legal assistance
16 because it's an annual issue when we forgive the loans.

17 And I think it's just a better reporting for you.

18 So with that said, under Roman numeral I,
19 you'll see that our budget is \$334,202,000 for the
20 delivery of legal assistance. We provided -- and it
21 might be better to look at 108, the charts. It might
22 be a little clear to you.

1 \$98,000 was given to the basic field. This is
2 money that went to Louisiana and the closeout of the
3 grants in the transition that's going on there. There
4 was \$253,000 in grants given, and the grants was for
5 the Legal Services Law Line of Vermont because of a
6 natural disaster there, and also Legal Aid of Western
7 Missouri. We gave \$188,000 there, again for the
8 disaster that occurred there. So we have a budget this
9 year of \$725,000 in that particular line, so we've
10 given 253 of that.

11 Within the technology -- here's where I talked
12 about -- we did give in the end of October and November
13 \$3.2 million in the technology grants that are
14 associated with the 2011 appropriation.

15 With the Herbert S. Garten program, we got an
16 additional million dollars. As I just reported, we've
17 got \$1.181 million in carryover. Adding the two
18 together, we will be forgiving those some time early
19 this year, I would expect. They will go against the
20 allowance.

21 And then, as we talked about yesterday, we
22 will look at the allowance, make an evaluation as to

1 what needs to be expensed here, and we'll make the
2 adjustment in September, basically, so that we have
3 everything correct.

4 Within management and grants oversight, the
5 \$21,300,000 in the budget, we spent almost \$2.6
6 million. The allocated budget for the period is \$3.5
7 million. So we are 27 percent under budget at this
8 point. We do have \$167,000 of contracts that are in
9 the pipeline that we'll be paying as soon as the work
10 is finished. Basically, we spent \$63,000 less in the
11 period through November than we did in 2010. But we do
12 look for those expenses to start increasing now.

13 Within the Inspector General, he spent
14 \$754,000 in the office there. The allocated budget is
15 \$1,071,000, so \$317,000 as far as variance at this
16 point, 29.6 percent under budget. And as you see, he
17 spent \$103,000 more in this period than the period last
18 year.

19 As was my practice last year when you got to
20 start getting your monthly reports, we'll try to detail
21 to you what is creating the variance that we've
22 had -- identifying the open positions, when they're

1 filled, and the other components that make this up.
2 And I'll give you a little better reporting as we go on
3 month to month.

4 CHAIRMAN GREY: Any questions? Madam Vice
5 Chair?

6 DEAN MINOW: David, the move of LRAP to
7 provision of legal services, I'm wondering, is that now
8 permanent? It will always be reported that way? Or
9 reported thought way once a year when the forgiveness
10 happens? Or what is the approach?

11 MR. RICHARDSON: It will be reported as we
12 evaluate the allowance, the amount that will be
13 forgiven of the 2012 loans. So the adjustment once a
14 year in September.

15 DEAN MINOW: And then for other budgets
16 periodically during the year, it will move to a
17 different part of the budget, or it just won't appear?

18 MR. RICHARDSON: No. It will appear as it
19 does now.

20 DEAN MINOW: As its now? Okay.

21 MR. RICHARDSON: Yes. Each month, I will
22 report how much it is. The only way that that would

1 change is if we do have some monies that we're trying
2 to collect. If those monies come in, you will see a
3 negative in that line because we will add it back to
4 the line so that we can make awards later.

5 CHAIRMAN GREY: Any other questions?

6 (No response.)

7 CHAIRMAN GREY: Thank you.

8 Mr. Constance?

9 MR. CONSTANCE: Thank you, Mr. Chairman. For
10 the record, I'm John Constance, director of the Office
11 of Government Relations and Public Affairs.

12 Regarding the submission of LSC's FY 2013
13 budget request, Legal Services Corporation Board of
14 Directors voted on September the 19th of last year to
15 seek an appropriation from Congress of \$470 million for
16 fiscal year 2013.

17 That information was put in a formal letter to
18 the Office of Management and Budget, as we always do.
19 And with that submission, let me also give you the
20 breakdown of that \$470 million, for the record, for
21 2013.

22 The request consists of \$440,300,000 for basic

1 field grants; \$5 million for TIG; \$1 million for our
2 Herbert S. Garten loan repayment assistance program;
3 \$19.5 million for management and grants oversight; and
4 \$4.2 million for the Office of the Inspector General.

5 This year we also provided to OMB, as you will
6 recall, a proposal regarding an amendment to our
7 appropriations language that would reflect the changes
8 brought on by the adjustment we're going to need to
9 make in 2013 as a result of the census.

10 We have had two face-to-face visits with the
11 OMB budget examiners since the submission. We have
12 preliminary numbers back from them in terms of what will
13 be in the President's budget for 2013. That number is
14 currently embargoed, and also we're in the process of
15 what I would call at this point an informal appeal with
16 the White House of that number. We'll have a briefing
17 a little bit later this afternoon in a closed session
18 on that number and also the process that we're going
19 through with that.

20 The decision has been made by OMB and the
21 White House to not object to the census language.
22 There is not an objection to our approach. There is a

1 complete understanding of the process that we went
2 through. What they have decided at this point is to
3 remain silent on it regarding the budget that the
4 President will formally submit to the Congress in
5 February.

6 It will not be part of the President's
7 legislative package. I don't think we should read
8 anything into that. In fact, they've been very clear
9 that they understood the process that we've gone
10 through, understand the recommendation, but they just
11 don't see it rising to the level of something that the
12 President would put forward to the Congress. We will
13 do that ourselves through our process.

14 Speaking of our process, we're going through
15 right now doing the document that will be our formal
16 submission to the Congress for the 2013 budget. It is
17 our intention to have that printed and ready to go just
18 prior to the President's budget going to the Congress.

19 And I believe the date is set of that for February 6.

20 So we'll be just ahead of that, as we normally are, in
21 terms of our submission.

22 CHAIRMAN GREY: Questions?

1 (No response.)

2 CHAIRMAN GREY: Thank you.

3 MR. CONSTANCE: My last opportunity to address
4 this committee, Mr. Chairman. I want to tell you what
5 a pleasure it has been to work with you and your
6 colleagues. Your hard work in support of our budget
7 proposals and your understanding and belief of this
8 mission have been true north for me in terms of working
9 with you, and I appreciate your work and the work of
10 this committee. Thank you.

11 CHAIRMAN GREY: Mr. Constance -- that begs a
12 response, of course -- besides being quite a scholar, a
13 gentleman, and one of great and passionate humor, we
14 want to tell you how much of a pleasure it has been to
15 have had you at the helm of what is, and on point for
16 our work, the face of LSC on the Hill, and your
17 negotiation for us through OMB and the budget
18 committees.

19 I think I speak for the committee and probably
20 for the Board as well in letting you know that no one
21 will be able to fill your shoes. So we went try to do
22 that. We'll just try to find somebody who's got big

1 feet.

2 (Laughter.)

3 MR. CONSTANCE: Thank you, Mr. Chairman.

4 CHAIRMAN GREY: Thank you very much.

5 MR. CONSTANCE: Thank you.

6 (Applause)

7 CHAIRMAN GREY: Mr. Chairman, in light -- we
8 still have one other resolution. We'll do our work on
9 the evaluations, as others have done, at another
10 meeting.

11 We have one last item, and then I think we're
12 finished, Mr. Richardson. Oh, I'm sorry, Mr. Fortuno.

13 MR. FORTUNO: Good afternoon, everyone. For
14 the record, Victor Fortuno with the Office of Legal
15 Affairs. I'll try to make this quick and relatively
16 painless. You have in your book at page 361 a January
17 9th memo on the subject that lays this out in some
18 detail. I'll just discuss some of the salient points.

19 By agreement with the U.S. Treasury, LSC draws
20 down funds, our appropriated funds, as needed. They're
21 maintained by LSC in two commercial accounts, one with
22 the Bank of America and the other with Wells Fargo.

1 It's important because it's a sizeable amount of money,
2 and on occasion, LSC has had as much as \$70 million
3 combined in these two accounts.

4 After grant payments are made, LSC maintains
5 somewhere in the range of 3- to \$4 million in this
6 combination of two accounts. The basic FDIC insurance
7 limit on deposits is \$250,000. But because, at least
8 under the end of 2012, deposits held in
9 non-interest-bearing accounts are fully insured by the
10 FDIC, LSC has its funds in non-interest-bearing
11 accounts.

12 In fact, I noticed yesterday -- I think you
13 may find it worth noting -- that the notes to the
14 financial statement audit at page 3 -- actually, it's
15 note 3 on page 8 -- notes this, that we have our
16 accounts there and that they're secure.

17 We've also consulted Ross Delton, who's an
18 expert on bank failure issues. And he's advised that
19 our current arrangement provides maximum level of
20 security for the funds under our control. However, we
21 don't know whether this same cap or this program will
22 be extended beyond the end of December.

1 That is, the program that covers all of the
2 funds that are held in non-interest-bearing accounts,
3 which is where we have all of our funds right now, any
4 funds in our possession or under our control are kept
5 in those two accounts because they have unlimited
6 coverage. We don't know whether that program is going
7 to be continued beyond 2012, so that, of course, is
8 being monitored.

9 In any event, and because there's no guarantee
10 that that program will be in place and will have that
11 unlimited coverage beyond 2012, it's important that the
12 Board have in place an appropriate process and internal
13 controls for the making of decisions as to how our
14 funds are held and managed.

15 The LSC bylaws provide that all funds of the
16 Corporation shall be deposited in accounts as the Board
17 may select or as may be selected by an officer, agent,
18 or employee of the Corporation to whom such power has
19 been delegated by the Board.

20 Our controller has been exercising this
21 function for many years now on the understanding that
22 prior boards have entrusted the controller with the

1 discretion to select the deposit accounts for LSC
2 funds. But we've not been able to locate a formal
3 delegation of this authority.

4 So for that reason, I recommend that the Board
5 formally consider how it would like to have this
6 function handled. To aid the Board in this, we've
7 provided a draft resolution which appears at page 114
8 of your board book for use as a possible starting point
9 if the Board elects to delegate this authority.

10 The principal features, at least as set out in
11 the resolution, are as follows. One is delegation. If
12 the Board decides to go ahead and operate by delegation
13 of authority on this issue, the resolution would
14 accomplish that by providing for delegation; and the
15 personal or the official to whom that delegation would
16 be, at least under the drafted resolution, would be the
17 controller.

18 In addition, the resolution would require
19 establishment of procedures regarding these actions,
20 that is, decisions as to what institutions to have our
21 funds in, what accounts within those institutions, and
22 whether moving funds around.

1 The procedure would be developed, established,
2 and located in our administrative manual. The
3 procedure would also contain a requirement and
4 procedures for the controller to consult the president
5 and obtain his or her consent for any significant
6 change in the management of our funds.

7 Lastly, there would be a further requirement
8 that would call for or that would provide an emergency
9 protocol for addressing any situations involving
10 imminent risk of loss, and also address situations
11 where the president might not be available.

12 Kind of wrapping it all up, we think that our
13 funds are secure. I think that that's reflected in the
14 note to our financial statement audit and on the
15 assessment and advice given to us by our expert advisor
16 on this subject.

17 Nevertheless, we don't know that the program
18 that provides that unlimited insurance is going to be
19 extended beyond the end of this year, and whether or
20 not it's extended beyond this year, it's an important
21 matter because it involves a significant amount of
22 money.

1 So it's important that we have procedures in
2 place and safeguards in place, internal controls. And
3 we think that to accomplish that, some decision should
4 be made by the Board as to whether the Board wants to
5 exercise the authority directly under the bylaws or do
6 as has been done in the past and delegate that to an
7 official of the Corporation.

8 And if it does so, then we also propose that
9 there be specific procedures established and followed
10 governing how that official exercise is, that
11 delegator's authority, and involving the president in
12 that process, providing a protocol for when the
13 president's not available or emergency circumstances
14 warrant some prompt handling of the issue.

15 We think that that's accomplished by the
16 resolution that's been provided to you. If nothing
17 else, it serves as a good starting point. And we're
18 here today before you to answer any questions you might
19 have and see if we can help in that process.

20 CHAIRMAN GREY: Madam Vice Chair?

21 DEAN MINOW: I take it the central concern
22 here is about exceeding the maximum of insured

1 deposits.

2 MR. FORTUNO: Yes.

3 DEAN MINOW: If that's the case, I'm not sure
4 why we would not have enough advance notice to be able
5 to do something about a risk.

6 Also, as to the proposed resolution, paragraph
7 4, it seems to me that it's important to have two
8 people involved in any of these, not just one.

9 MR. LEVI: In addition, so that if the
10 president can't act, it seems to me, and we start going
11 down the line, it ought to be two people, not just one
12 as we start to go down. We're going to have a vice
13 president of grants management. There are
14 other -- that would be my suggestion and Martha's. I
15 want to give her full credit for spotting this.

16 DEAN MINOW: Thanks.

17 FATHER PIUS: The idea would be that they
18 would need approval from both?

19 MR. LEVI: Yes.

20 FATHER PIUS: If the president's not
21 available, they need two --

22 MR. LEVI: If the president's not available,

1 but that, yes, we're going down the line now.

2 FATHER PIUS: -- or one president.

3 MR. LEVI: Yes. Exactly. Well, there's the
4 check and the balance.

5 CHAIRMAN GREY: The posture of this presently
6 suggests that the president, the general counsel, the
7 controller, act as officials with regard to this issue.

8 And if one is not available, then the other two act in
9 their stead.

10 And it is your suggestion that the three of
11 them are not enough without the --

12 MR. LEVI: I think what Martha was saying is
13 if the president can't act --

14 CHAIRMAN GREY: Just the president.

15 MR. LEVI: -- if the president couldn't act
16 then and you start going down the chain, that that
17 individual has a colleague, paired --

18 CHAIRMAN GREY: Oh, I see what you're saying.
19 I got you.

20 MR. LEVI: It's like one versus two
21 signatures.

22 MS. BROWNE: I guess I agree that we need two

1 signatures. I don't see any reason that it be a
2 unilateral act. But I thought No. 4 was talking about
3 in the unusual event that the president is not
4 available --

5 MR. LEVI: It is.

6 MS. BROWNE: -- and the general counsel is not
7 available, and then the controller can act unilaterally
8 in protecting the funds. Am I --

9 DEAN MINOW: I read it exactly the same way.
10 But I can't imagine a circumstance in which there would
11 be such an urgency that we couldn't get two people to
12 sign it. And that's just a better control.

13 CHAIRMAN GREY: That's what I assumed.

14 MR. LEVI: That's all we're saying.

15 MR. RICHARDSON: If I can add one thing. It's
16 been a number of years ago, but we used to del with
17 minority banks. And when that happened, we were with
18 Capital Bank, National Bank of Washington, United Bank.
19 And it was at the point where there was a number of
20 bankruptcies.

21 I had developed relationships with the banks
22 over the years. You read the newspapers, this stuff

1 doesn't happen under dark of night. You see the
2 newspapers that they're questioning information.
3 They're questioning the bank.

4 I received a call -- this was on like the 28th
5 of the month. We had just put our money in the bank
6 for making grant checks, and the vice president of the
7 bank called me and said, "Did you read the morning
8 paper?" That day, I moved \$15 million out of the
9 account into a new bank.

10 The president was not available that
11 particular day. But I did it to protect the
12 Corporation's financial position there.

13 DEAN MINOW: Maybe the president wasn't
14 available, but the general counsel would have been
15 available? I mean, the idea that you can't find
16 anybody seems so unimaginable.

17 MR. RICHARDSON: I agree. I think any time
18 that that happens, we can certainly talk with a couple
19 people. But at that particular point, I think they
20 were out on a training session, so I went ahead and
21 moved the money.

22 But you're correct. As we watch the

1 newspapers and read the tea leaves, and then with the
2 relationships we have with our banks, they can't come
3 right out and say, "We're closing doors." But we do
4 have the relationship that they help us.

5 MR. LEVI: But in this day and age, with
6 BlackBerrys and text, it just isn't possible. And I
7 think you're not talking about a day that isn't a
8 business day, in any event.

9 CHAIRMAN GREY: With that suggestion, is the
10 committee comfortable asking that the resolution be
11 amended to ensure that at any time, whether emergency
12 or not, that two signatures be authorized for the
13 transfer of funds?

14 MR. LEVI: Other than the president.

15 CHAIRMAN GREY: I understand that. Other the
16 president. Other than the way it's written here. Is
17 that agreed?

18 PRESIDENT SANDMAN: I think it would be
19 helpful to have specific language that the committee
20 can vote on to amend the resolution as proposed here.

21 CHAIRMAN GREY: That's what I'm going to ask.

22 I just wanted to make sure we were in consensus on

1 that. Then I'm going to transfer the drafting back to
2 staff to bring back to us.

3 FATHER PIUS: And just a minor drafting point.

4 If we could have a consistent use of "can" or "may."

5 MR. LEVI: See, now this little change gave us
6 that opportunity.

7 (Laughter.)

8 CHAIRMAN GREY: And it was a good one, Mr.
9 Chair.

10 With that, I don't think that there's anything
11 else for us to do at this point, and I would ask that I
12 receive a motion to adjourn the Finance Committee.

13 FATHER PIUS: Don't we have to open it up to
14 public comment?

15 CHAIRMAN GREY: Oh, yes. I'm sorry. Public
16 comment first. Is anyone on the line?

17 (No response.)

18 CHAIRMAN GREY: Anyone in the audience?

19 MR. FORTUNO: We do understand that it was
20 referred back to staff for some revisions. The
21 question is, are you asking that those come back to you
22 tomorrow for discussion at the Board when you make your

1 recommendation, or is it for the next meeting?

2 CHAIRMAN GREY: No. To the Board.

3 MR. FORTUNO: Tomorrow? Okay.

4 CHAIRMAN GREY: Yes, please.

5 MR. LEVI: With the "mays" and "cans" also
6 fixed. That'll be a big job. You'll be up all night.

7 MR. FORTUNO: I not only may but I can. Yes.

8 (Laughter.)

9 CHAIRMAN GREY: A motion?

10 M O T I O N

11 MS. BROWNE: This is Sharon Browne. I'll move
12 to close the Finance Committee.

13 FATHER PIUS: Second.

14 CHAIRMAN GREY: All in favor say aye.

15 (A chorus of ayes.)

16 CHAIRMAN GREY: Opposed, no.

17 (No response.)

18 CHAIRMAN GREY: The meeting is adjourned.

19 (Whereupon, at 4:33 p.m., the committee was
20 adjourned.)

21 ● * * * *

22 ●